USDA

United States
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Agriculture

National
Commission on
Small Farms

A Time to Act

A Report of the USDA National Commission on Small Farms

January 1998

National
Commission
on
Small Farms

This report is dedicated to the memory, life and work of Dr. Martin Luther King, Jr., who gave his life for expanding opportunities for all Americans; and to Thomas Jefferson, who envisioned the "yeoman" farmer as the bedrock of American democracy.

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Letter of Transmittal

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Secretary Glickman,

The National Commission on Small Farms is pleased to submit to you our report – *A Time to Act*. It is the product of considerable discussion and deliberation based on extensive oral and written testimonies and suggestions gleaned from the Commission's many regional hearings, as well as from written materials submitted to the Commission.

USDA's administrators and staff made themselves accessible to the Commission and provided much useful information about the Department's many and varied agencies, programs, and policies. And USDA staff who worked with the Commission were indispensable in facilitating the Commission's work.

Having gone through the process of developing this report, we are now even more convinced of the necessity to recognize the small farm as the cornerstone of our agricultural and rural economy. We feel that a sustainable rural renaissance can be anchored in a vibrant, dynamic, small farm sector and we believe that the Commission's recommendations, if implemented, will contribute to this renaissance.

We wish to acknowledge and applaud your decisive action in appointing this Commission and in responding to concerns and recommendations made in the Civil Rights Action Team Report.

We look forward to joining with you and others in helping to fashion policies, programs, and partnerships that will bring economic vibrancy to rural communities, wholesome and nutritious food for consumers, stability to our small farm enterprises, and an improved quality of life to our small farmers and our farmworkers.

Respectfully signed and submitted by:

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II. Executive Summary

Not since Secretary of Agriculture Bob Bergland initiated a study of the structure of agriculture in 1979 has USDA made the effort to examine the condition of farming and its place in our food system. The USDA Civil Rights Action Team that recommended formation of a commission recognized that, in addition to racial discrimination, government policies and practices have discriminated against small farm operators. In July of 1997, nearly 20 years later, Secretary of Agriculture Dan Glickman appointed a 30-member National Commission on Small Farms to examine the status of small farms in the United States and to determine a course of action for USDA to recognize, respect, and respond to their needs.

The Commission began its work in Memphis, Tennessee, on July 28. Subsequent public hearings and meetings were held in Sioux Falls, South Dakota, on August 21 and 22; Washington, DC, on September 10 and 11; and Sacramento, California, on September 15 and 16. Three smaller meetings were held in Albany, New York; Albuquerque, New Mexico; and Portland, Oregon. The results of the Commission's work are embodied in the 146 recommendations in this report, *A Time to Act*.

When Secretary Bergland's report, *A Time to Choose*, was published, it warned that "…unless present policies and programs are changed so that they counter, instead of reinforce or accelerate the trends towards ever-larger farming operations, the result will be a few large farms controlling food production in only a few years."[1]

Looking back now nearly 2 decades later, it is evident that this warning was not heeded, but instead, policy choices made since then perpetuated the structural bias toward greater concentration of assets and wealth in fewer and larger farms and fewer and larger agribusiness firms. Federal farm programs have historically benefited large farms the most. Tax policies give large farmers greater incentives for capital purchases to expand their operations. Large farms that depend on hired farmworkers receive exemptions from Federal labor laws allowing them the advantage of low-wage labor costs.

Today, we have 300,000 fewer farmers than in 1979, and farmers are receiving 13 percent less for every consumer dollar. Four firms now control over 80 percent of the beef market. About 94 percent of the Nation's farms are small farms, but they receive only 41 percent of all farm receipts.

Like most major industries, the ownership and control over agricultural assets is increasingly concentrated in fewer and fewer hands. Farmers have little to no control over setting the price for their products. The basic tenets of a "competitive" market are less and less evident in crop and livestock markets today.

The recent passage of the 1996 Federal Agricultural Improvement and Reform Act was a watershed event in the history of Federal farm policy. It signals the reduction and eventual elimination of government intervention in commodity markets as a means to provide income and price stability for the farming sector.

[1] A Time to Choose: Summary Report on the Structure of Agriculture. USDA. Washington, DC. January 1981. p. 142.

Agricultural technologies have emerged that use ever greater levels of capital to enable fewer people to produce the Nation's food. As a result, income and opportunities have shifted from farms to the companies that produce and sell inputs to farmers. As farmers focused on producing undifferentiated raw commodities, food system profit and opportunities were shifted to the companies that process, package, and market food. Consequently, from 1910 to 1990 the share of the agricultural economy received by farmers dropped from 21 to 5 percent.[2]

The pace of industrialization of agriculture has quickened. The dominant trend is a few, large, vertically integrated firms controlling the majority of food and fiber products in an increasingly global processing and distribution system. If we do not act now, we will no longer have a choice about the kind of agriculture we desire as a Nation.

A Vision for Small Farms in the 21st Century

The National Commission on Small Farms is certain about its choice for the future of American agriculture:

Small farms have been the foundation of our Nation, rooted in the ideals of Thomas Jefferson and recognized as such in core agricultural policies. It is with this recognition of our Nation's historical commitment to small farms that we renew our dedication to the prominence of small farms in the renewal of American communities in the 21st century. Black, Hispanic, Native American, Asian, women, and other minorities have contributed immensely to our Nation's food production and their contributions should be recognized and rewarded.

It is our resolve that small farms will be stronger and will thrive, using farming systems that emphasize the management, skill, and ingenuity of the individual farmer. We envision a competitive advantage for small farms realized through a framework of supportive, yet responsible, government and private initiatives, the application of appropriate research and extension, and the

[2] Smith, Stewart, "Farming: It's Declining in the U.S.," Choices, First Quarter 1992.

stimulation of new marketing opportunities. As small farms and farmworkers succeed in this nurturing environment, not only will they continue their valuable contribution to the Nation's food supply, but they will also fuel local economies and energize rural communities all across America. In the process of flourishing, small farms will contribute to the strengthening of society, providing communities and the Nation with opportunities for self-employment and ownership of land, and providing a cultural and traditional way of life as well as nurturing places to raise families.

We emphasize public policies that recognize the value of small farms and actively encourage their growth and continuation. These policies are essential to the realization of this vision; so too, are policies that recognize and reward the contributions of farmworkers and their families. Toward this end, the Commission has articulated goals and made specific recommendations to guide the decision-making of the Secretary of Agriculture, the Executive Branch and Congress into the next century.

This vision is focused on those farms with less than $250,000 gross receipts annually, on which day-to-day labor and management are provided by the farmer and/or the farm family that owns the production or owns, or leases, the productive assets.

Policy Goals for Our Nation's Small Farms

The Commission outlined 8 policy goals for a national strategy for small farms:

Policy Goal 1: Recognize the importance and cultivate the strengths of small farms

- USDA's Research, Education and Economics Mission Area should design and implement a small farm research initiative dedicated to optimizing the labor and ingenuity of small farm operators and the biological assets of their farms using less capital-intensive investments.
- USDA should re-commit itself as the "lender of last resort" by focusing greater attention to serving the credit needs of small, minority, and beginning farmers; reversing the shift to guaranteed loans; and accelerating action on pending credit regulations.
- Congress should repeal the provisions that prohibit farmers who have previously had "debt forgiveness" from receiving any future USDA loans or credit assistance.
- USDA policies, programs, and regulations should be reviewed to identify program rules and regulations that are either intentionally or unintentionally biased against small farms, including the Environmental Quality Incentives Program, the Business and Industry Loan Program, and Forestry Stewardship Programs.

Policy Goal 2: Create a framework of support and responsibility for small farms

- Establish an Administrator of Small Farm Programs that reports to the Secretary and has Senior Executive Service status.

- USDA should develop a Department-wide Small Farm and Ranch Policy that encompasses the vision and the guiding principles set forth by the Commission and that must be reflected in the services, programs, and materials delivered by each agency.

Policy Goal 3: Promote, develop, and enforce fair, competitive, and open markets for small farms

- USDA's Rural Business – Cooperative Service should give priority to the development of farmer-owned, value-added cooperatives and farm-based businesses where profits flow to and within the community; where wage-laborers are paid a living wage; where the efforts results in more local and regional competition in the cash market, not less; and where natural resource stewardship is rewarded through the market.
- The Secretary should propose legislation clarifying the authority of the Grain Inspection, Packers and Stockyards Administration (GIPSA) to prohibit discriminatory pricing on the basis of volume.
- The Secretary should consider Federal production contract legislation to address issues such as contract termination, duration, and re-negotiation; prohibition against discriminatory practices; and responsibility for environmental damages.
- The Commission endorses the proposed rule to prohibit packers from procuring cattle for slaughter through the use of a forward contract, and from owning and feeding cattle, with limited exceptions.
- USDA should investigate the processing and retailing segments of the dairy industry to determine if excessive profits are being made at the expense of farmers and consumers.
- USDA should develop an interagency initiative to promote and foster local and regional food systems featuring farmers markets, community gardens, Community Supported Agriculture, and direct marketing to school lunch programs.

Policy Goal 4: Conduct appropriate outreach through partnerships to serve small farm and ranch operators

- Farm Service Agency State Executive Directors, Rural Development State Directors, Natural Resources Conservation Service State Conservationists, and State Cooperative Extension program administrators should support the formation of farmer networks and mentoring programs for small farmers.
- USDA should collaborate with and jointly fund community-based organizations to train people to be farmer advocates.
- Educational efforts by the Risk Management Agency should address sustainable agriculture practices as a means of managing risk on small farms.

Policy Goal 5: Establish future generations of farmers

- USDA should launch an interagency Beginning Farmer Initiative dedicated to researching, developing, and disseminating farm management models that emphasize low-capital investment, optimal use of skilled labor and management potential of beginning farmers, and high-value crop and livestock production and marketing methods.

- The Farm Service Agency should clearly define the eligibility requirements for beginning farmers and recognize the farming experience of persons who were raised on family farms, who worked as hired farm labor, or who received training from apprenticeships.
- Congress should authorize the Farm Service Agency to guarantee tax-exempt First Time Farmer Bonds used to make loans to beginning farmers and ranchers.
- USDA should seek legislative authority to create a Beginning Farmer Matching Grant program for the purpose of supplying equity funds for entry farmers in lieu of loans.

Policy Goal 6: Emphasize sustainable agriculture as a profitable, ecological, and socially sound strategy for small farms

- The USDA Office of Communications should conduct a communications campaign to inform farmers of the new farming strategies emerging from the 10 years of sustainable agriculture research.
- The Secretary of Agriculture should support policies that preserve the grazing and water use rights of the small and traditionally underserved public land permittees.
- USDA's Risk Management Agency should develop an affordable Whole Farm Revenue Insurance pilot project for diversified small farms using sustainable farming practices.
- The Secretary should exercise restraint in approving exceptions to the 1,000 animal units eligibility limit on EQIP funding for livestock manure storage structures.

Policy Goal 7: Dedicate budget resources to strengthen the competitive position of small farms in American agriculture

- Increase appropriations for the Sustainable Agriculture Research and Education program by $10 million each year over 3 years to reach $40 million.
- Increase the Outreach and Technical Assistance Program for Socially Disadvantaged and Minority Farmers (Sec. 2501) program to the current authorized level of $10 million annually.
- Increase funding to the maximum authorized levels of $85 million for Farm Ownership Direct Loans and $500 million for Farm Operating Direct Loans.
- Increase Rural Technology and Cooperative Development Center Grant Program funding to $20 million.
- Ensure GIPSA appropriated funding at $3 million for reorganization, $1.65 million for increased staff, and $750,000 for investigation into unfair market practices in the poultry industry.

Policy Goal 8: Provide just and humane working conditions for all people engaged in production agriculture

- President Clinton should establish an interdepartmental task force led by Secretary Glickman involving the Departments of Education, Labor, Health and Human Services, and Environmental Protection Agency, as well as the Internal Revenue Service and the Immigration and Naturalization Service, to address the laws, regulations, and enforcement affecting farmworkers.

- A Farmworker Coordinator position should be created within the USDA Office of Outreach.

The Public Value of Small Farms

The dominant belief in agriculture is that large farms are more efficient than small farms. However, Professor Willis L. Peterson from the University of Minnesota found that factors other than size influence the unit costs in agriculture. Peterson asserts that “small family and part-time farms are at least as efficient as larger commercial operations. In fact, there is evidence of diseconomies of scale as farm size increases.”[3]

In addition, our economic accounting systems do not take into account the “hidden” costs of large farms. An agricultural system characterized by a limited number of large-scale farms does not take into account the loss of market competition when production is concentrated in oligopsonistic markets. The environmental consequences of concentrating a large number of animals in limited areas is rarely considered.

Small farms contribute more than farm production to our society. Small farms embody a diversity of ownership, cropping systems, landscapes, biological organization, culture, and traditions. Since the majority of farmland is managed by a large number of small farm operators, the responsible management of soil, water, and wildlife encompassed by these farms produces significant environmental benefits. Decentralized land ownership produces more equitable economic opportunity for people in rural communities, and offers self-employment and business management opportunities. Farms, particularly family farms, can be nurturing places for children to grow up and acquire the values of responsibility and hard work.

In 1980, Secretary Bergland proposed a “Time to Choose” the future direction for our Nation’s agriculture. However, policy choices made since then have diminished the role and relevance of small farms in this country.

On more than one occasion, farmers who spoke at the public meetings referred to the Commission as “our last hope.” It is with conviction and hope that the National Commission on Small Farms is asking the Congress and USDA to *act* on the needs of America’s small farmers.

[3] Peterson, Willis L., “Are Large Farms More Efficient?” Staff Paper P97-2. University of Minnesota, Department of Applied Economics. January 1997.

III. Introduction

Not since Secretary of Agriculture Bob Bergland initiated a study of the structure of agriculture in 1979 has USDA made the effort to examine the condition of farming and its place in our food system. In July of 1997, nearly 20 years later, Secretary of Agriculture Dan Glickman appointed a 30-member National Commission on Small Farms to examine the status of small farms in the United States and to determine a course of action for USDA to recognize, respect and respond to their needs through changes in policies, practices, and programmatic approaches.

Early on in the process, members of the National Commission on Small Farms recognized that its focus was not limited to the viability of "small farms," but rather their efforts were to include an examination of the structure of agriculture and how it affects small farm viability. The focus of the Commission was "How do farms, of modest investments, owned and operated by families who supply the majority of labor, remain profitable in an agricultural structure that is increasingly bi-polar?"

When providing the newly formed National Commission on Small Farms with its assignment to develop a National Strategy for Small Farms, Secretary of Agriculture Dan Glickman outlined the challenges facing small farmers today:

> *Its no secret out in farm country that things are changing...and fast. Agriculture, like every other major sector of our economy, is concentrating. From defense to retail stores, to health care, to railroads, to farms and ranches — we're seeing fewer and larger operations, mergers and buyouts, larger market shares and fewer people in those markets.*

At the time of the first meeting, the Commission recognized that there was seemingly a national consensus that larger farms are more efficient and, therefore, in the national interest. However, members of the Commission believe that the primary values of small farms were to be found in our national heritage and that heritage is important to keep alive for future generations. As eloquently stated during the first hearing: "The greatest thing that agriculture furnished this country is not food or fiber, but a set of children with a work ethic and a good set of values."[4]

During the several months since the initial public meeting in Memphis, the Commission heard oral testimony from literally hundreds of owners of small farms and people in the agriculture sector. They have read and studied written testimonies and research papers which stack up over a foot thick. The Commission has engaged in freewheeling debate and in-depth discussions among themselves and with experts on numerous issues affecting all aspects of the American agriculture community. Commission members also spent hundreds of workhours with USDA staff studying various programs. Most importantly, the Commission learned.

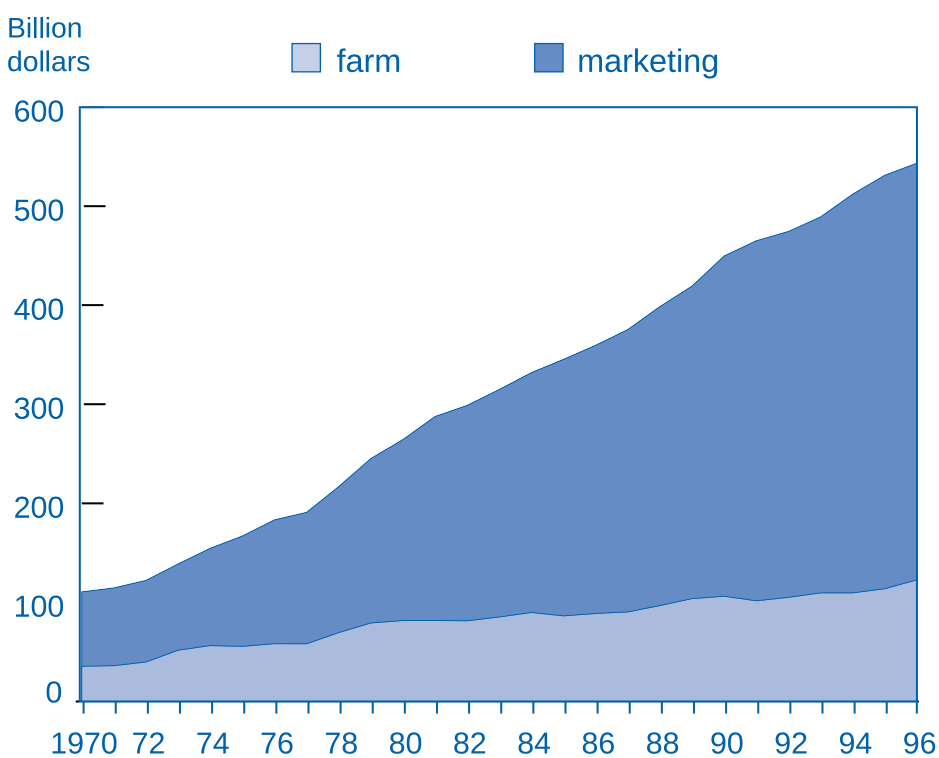
[4] Ron Macher, of Clark, Missouri. Editor of Small Farm Today Magazine, testimony at Memphis public meeting, July 28, 1997.

The Commission learned that larger farms are not more efficient than small farms at producing crops.[5] They learned that as small farms are consolidated into larger farms, the economic basis of America's rural communities decline, and rural towns are lost.[6] Trends have also been revealing. The land base of America is being concentrated into fewer and fewer owners, in large part due to the concentration of agriculture, and that large agricultural processors are actively acquiring highly productive farm land in some regions, like the Central Valley of California. Another trend which was repeated throughout the written and oral testimony is the tendency of the large agricultural integrators to avoid capital investment in the means of production and pass both the risk and costs on to their contract growers or to society at large in the form of water and soil pollution and increased Federal assistance to those rural communities. Finally, and importantly, a trend which appears in all sectors of American agriculture is a widening spread between what farmers received for their production and what consumers pay at the supermarket (See Figure 1). The

Figure 1

Distribution of food expenditures

The marketing bill is 77 percent of 1996 food expenditures



Data for foods of U.S. farm origin purchased by or for consumers for consumption both at home and away from home

Source: Agriculture Fact Book 1997

[5] Peterson, W.L. 1997. Are Large Farms More Efficient? Staff Paper p97-2. University of Minnesota

[6] Lobao, Linda M., *Locality and Inequality: Farm and Industry Structure and Socioeconomic Conditions*, State University of New York Press, Albany. 1990. p. 56-57

setting of prices under near monopoly conditions allows the major processors and retailers of agricultural products to capture an increased price spread, bankrupting farmers while providing the financial ability for these agricultural industries to buy their competition, further concentrating markets and eliminating the free market on which our society depends.

The U.S. Department of Agriculture, established by President Lincoln as the "People's Department," has numerous agencies and programs whose purposes are to ensure an abundant and safe national food supply. Historically, these programs adopted a mission of assisting American small farmers and provided locally driven Federal support to millions of farm families in rural America. Lending programs were established to provide services as the lender "of last resort" when other credit sources were not available. Extension services assisted farmers and their families with crop selection, food preservation, home economics, and youth development through the 4-H program. Conservation programs focused on assisting individual farmers in improving the long-term productivity and sustainability of their lands. Research focused on improved crop cultivars and on-farm improvements to improve production.

The Result of Choices Made

Secretary Bergland committed a year and a half of public hearings, research, and analysis to the structure and performance of agriculture, culminating in a report entitled *A Time to Choose*, published in January 1981, on the eve of a new Administration. The report described the historical trends and changes in the structure of agriculture over time and warned, "…unless present policies and programs are changed so that they counter, instead of reinforce or accelerate the trends towards ever-larger farming operations, the result will be a few large farms controlling food production in only a few years."[7] Looking back now nearly 2 decades later, it is evident that this warning was not heeded, but instead policy choices made since January of 1981 perpetuated the structural bias toward greater concentration of assets in fewer and larger farms and fewer and larger agribusiness firms.

A few statistics illustrate the effects of Federal agricultural policies since Secretary Bergland's study:

In 1978, there were 2.3 million farms in the United States.[8]
Today, there are 2.0 million farms in the United States.[9]

In 1980, 4 firms controlled 36 percent of the beef slaughter.
Today, 4 firms control 80 percent of the beef slaughter.[10]

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[7] A Time to Choose: Summary Report on the Structure of Agriculture. USDA. Washington, DC January, 1981. p. 142.
[8] Ibid. p. 42
[9] Structural and Financial Characterstics of U.S. Farms, 1994. USDA Economic Research Service. p. 18.
[10] Refers to steer and heifer slaughter only. GIPSA, Packers and Stockyards Statistical Report, 1995 Reporting Year, SR-97-1, September, 1997. p. 49

In 1980, the farmer received 37 cents of every consumer dollar spent on food. Today, the farmer receives 23 cents of every consumer dollar spent on food.[11]

Within a few years of printing *A Time to Choose*, American agriculture experienced the worst economic crisis in farming since the Great Depression due to record crop production, falling export demand, and the Federal Reserve's anti-inflationary measures of high interest rates and high exchange rates. Many farmers faced a credit crisis, having borrowed on rising land values in the 1970's to expand operations, resulting in high numbers of bankruptcies and foreclosures among farms of all sizes, bank closings, and agriculture-related business failures. The economic stress took its toll on farm families, sometimes resulting in suicide and divorce, and tore at the fabric of rural community life.

Historical large-farm bias

The 1981 farm bill largely continued the design of the farm programs of the 1970's, despite opposition from a new Administration committed to reducing government intervention in agriculture. Domestic grain surpluses soared due to low acreage set-asides and export markets dampened by high exchange rates. Farm subsidy costs were unprecedented. The new Administration, committed to reducing government spending in agriculture, proposed major cuts in farm price support levels in the 1985 farm bill. However, the farm debt crisis made these proposals politically impossible and they were rejected by the Congress. During this same time, "economic emergency" loans were made to highly leveraged large farms; many of these loans would ultimately go uncollected. It is these loans which constitute 78 percent of currently reported 23 percent delinquency in USDA Direct Lending programs. The final 1985 farm bill retained the basic farm policy mechanisms, but began to put downward pressure on farm prices by freezing target prices, lowering loan rates and subsidizing exports. In 1987, the Administration, under the leadership of Secretary Clayton Yeutter, took its proposals for cutting agriculture spending to the General Agreement on Tariffs and Trade (GATT) and eventually succeeded in winning reductions in agricultural subsidies worldwide.[12]

Following record spending on farm subsidies, and the passage of the Gramm-Rudman deficit reduction law, the 1990 farm bill set in motion a movement to reduce government payments to farmers by instituting the "triple base," which reduced the amount of acreage eligible for payments. This set the course for the most recent policy change in the 1996 Federal Agriculture Improvement and Reform Act (FAIR), which decoupled planting decisions from payments and instead provided "transition" payments scheduled to cease in 2002.

[11] 1997 Agriculture Fact Book. USDA. p 10. Includes food eaten at home and away from home based on an average market basket survey. Twenty-three cents represents the gross cash income received by farmers, before farm expenses and labor are subtracted. See also Description of a Small Farm, page 24.
[12] For a comprehensive history of Federal farm policy, see Chapter 3 of "Reforming Farm Policy: Toward a National Agenda," by Willard C. Cochrane and C. Ford Runge. Iowa State University Press. 1992.

Even though only about one-third of U.S. farmers have participated in Federal farm programs, these programs have historically been structurally biased toward benefiting the largest farms. Farm payments have been calculated on the basis of volume of production, thus giving a greater share of payments to large farms, enabling them to further capitalize and expand their operations. Attempts to place caps on the amount of payments per farm have not resulted in their intended effects.

The present system of “transition” payments perpetuates the large-farm bias because the amount of payment is based on historical payment levels. A new risk management tool, “revenue insurance,” also perpetuates a large-farm bias through its provisions of coverage for the few major program commodities with no limit on the amount of coverage provided. Additionally, recent changes in Federal tax policy provide disproportionate benefits to large farms through tax incentives for capital purchases to expand operations. Large-scale farms that depend on hired farmworkers for labor receive exemptions from Federal labor law afforded workers in every other industry, allowing them the advantage of low-wage labor costs.

The Structure of Agriculture Today

The most widely used description of the structure of agriculture is based on the statistic of gross farm sales. USDA Economic Research Service labels three-fourths of the Nation’s farms that have annual gross sales under $50,000 as “non-commercial” farms, meaning they do not generate enough sales to be commercially viable on their own. Half of these farmers rely on off-farm income. Many dismiss these farmers as “hobby farmers,” implying that their goals do not include making a profit. This categorization fails to recognize that for some of these farmers, off-farm jobs are not a choice, but a necessity due to the inability to obtain an adequate return from farming. And in some places, such as Indian reservations, off-farm jobs are not available at all. Even for farmers in the next highest sales class, from $50,000 gross sales to $250,000 gross sales, where 86 percent of these farmers count farming as their primary occupation, the average return on equity is negative.[13]

Another popular statistic used to describe the structure of agriculture is the contribution of value of production per sales class. Farms with gross sales under $250,000 make up 94 percent of all farms. However, these farms receive only 41 percent of all farm receipts. In other words, out of 2 million farms, only 122,810 of the super-large farms receive the majority of farm receipts.

[13] Structural and Financial Characterstics of U.S. Farms, 1994. USDA Economic Research Service. p. 20.

There is a danger in relying on gross sales statistics to provide the whole picture of the structure and performance of agriculture today. While agriculture has become more segmented and specialized, most analyses of gross sales statistics have failed to distinguish between the differing, and often value-adding levels of production. Of course farms with higher levels of gross sales would appear to be more productive. Yet a closer examination shows many of those high-end operations are dependent on primary-level production constituting cow/calf, lambing, farrowing, or grain production. A simple indicator of the differences can be shown in cattle production. The average size cow/calf operation in the United States is 49 head. A medium-sized feedlot operation averages 10,000 head, yet depends upon the primary calf production as its source for feeder cattle. Without more precise indicators to measure the contribution of the primary level of production, an appreciation of the productive contributions of small farms is diminished.

When a gross sales statistic is used combining all agricultural sectors, it can generate the conclusion that large and super-large farms produce most of the food and fiber in this country, when, in fact, the most critical production occurs at the primary level. Conclusions and policies which focus on the large and super-large farms as an inevitable result of economic progress may be ignoring the small farm as the most vital component of all food production.

Many people consider a few, large farms an inevitable result of economic progress. For example, a Wall Street Journal writer recently expressed with a fair amount of conviction that “In fact, local dairies aren’t necessary anymore. Megafarms are springing up in such places as New Mexico and Idaho that produce milk far more cheaply than the postcard pretty Vermont dairy farm. In addition, processors are experimenting with filters to remove the water from milk, which makes shipping it cross-country cheaper.”[14]

The “get big or get out” policy drives of the past fail to recognize the real cost of this kind of “economic progress.” This perspective does not consider the loss of market competition when production is concentrated in a monopoly market. It does not consider the cost of potential environmental consequences of concentrating a large number of animals in limited areas. It does not consider the risk to the security of our milk supply should disease or natural disaster strike these few megafarms. It does not consider the cost of increased use of fossil fuels to ship milk across the country. It does not consider the increase in bacteria when water is extracted. Contrary to popular belief, large

[14] Kilman, Scott. “Inside the Byzantine World of Milk Prices.” Wall Street Journal. November, 25, 1997.

farms do not produce agricultural products more efficiently than small farms, especially when real costs are taken into account.

Furthermore, the assumption that large farms are more efficient because of economies of scale was challenged by presenters at the Commission's public meetings. Statistical analysis conducted by Professor Willis L. Peterson from the University of Minnesota examined the factors that make up the Census of Agriculture statistical measure of economies of size. Peterson found that factors other than size influence the unit costs in agriculture. After accounting for the quality of land and farm management, subtracting the contribution of the farmhouse to farm output, and considering the effect of opportunity costs related to off-farm employment on farm output and production costs, Peterson asserts "that small family and part-time farms are at least as efficient as larger commercial operations. In fact, there is evidence of diseconomies of scale as farm size increases."[15]

Small farms cannot exist in a vacuum as relics of days gone by preserved for the tourists or nostalgia for how most everyone's great grandparents lived. Small farms are a vital functioning part of a working landscape that includes Jeffersonian entrepreneurs of all kinds—locally owned grocery stores, garages, machinery dealerships and other businesses operating on a similar scale as the farmers they both serve and depend on.

— Clark Hinsdale, Vermont

The "diseconomies of scale" extend beyond the farmgate to affecting the farming community. There is a substantial body of literature that suggests that large-scale agricultural production does not bode well for conditions in farming communities. University of California anthropologist Dean MacCannell wrote, "As farm size and absentee ownership increase, social conditions in the local community deteriorate. We have found depressed median family incomes, high levels of poverty, low education levels, social and economic inequality between ethnic groups, etc.… associated with land and capital concentration in agriculture…. Communities that are surrounded by farms that are larger than can be operated by a family unit have a bi-modal income distribution, with a few wealthy elites, a majority of poor laborers, and virtually no middle class. The absence of a middle class at the community level has a serious negative effect on both the quality and quantity of social and commercial service, public education, local governments, etc.[16]

The public value of small farms

The Wall Street Journal writer did not consider the benefits that result from a large number of farms under a system of widespread ownership rather than concentration of our food supply in a few megafarms. Economic statistics speak only to the "product output" of farms by measures of crop and livestock sales and they likely underestimate the economic contributions of small farms stated earlier. These numbers do not reflect the social and environmental goods produced by a large number of small farms. Some of the public values generated by small farms include:

[15] Peterson, Willis L., "Are Large Farms More Efficient?" Staff Paper P97-2. University of Minnesota, Department of Applied Economics. January 1997.

[16] MacCannell, Dean. "Agribusiness and the Small Community," Background paper to Technology, Public Policy and the Changing Structure of American Agriculture, Office of Technology Assessment, U.S. Congress, Washington, DC. 1983.

- **Diversity:** Small farms embody a diversity of ownership, of cropping systems, of landscapes, of biological organization, culture and traditions. A varied farm structure contributes to a diversity of cropping systems and, therefore, to biological diversity. A large number of smaller farms contributes to a diverse and esthetically pleasing rural landscape and open space, particularly appreciated by urban people as well as rural neighbors. Connection to the land has always been central to the spiritual and cultural values of our country's indigenous people. Additionally, widespread ownership of land is an essential principle of our Nation's earliest public policies. And land ownership and farming provided a foundation for community and tradition for the new settlers and pioneers who often fled from oppressive regimes to seek greater opportunity in America.

- **Environmental benefits:** Approximately 60 percent of all farms are less than 180 acres in size, indicating that the majority of farmland is managed by a large number of small farm operators.[17] Responsible management of the natural resources of soil, water, and wildlife encompassed by these operations produces significant environmental benefits for society to enjoy. Therefore, investment in the viability of these operations will yield dividends in the stewardship of the Nation's natural resources.

- **Self-empowerment and community responsibility:** Decentralized land ownership produces more equitable economic opportunity for people in rural communities, as well as greater social capital. Owner-operated farm structures offer individual self-employment and business management opportunities. This can provide a greater sense of personal responsibility and feeling of control over one's life, characteristics that are not as readily available to factory line workers. Land owners who rely on local businesses and services for their needs are more likely to have a stake in the well-being of the community and the well-being of its citizens. In turn, local land owners are more likely to be held accountable for any negative actions that harm the community.

- **Places for families:** Farms, particularly family farms, can be nurturing places for children to grow up and acquire the values of responsibility and hard work. The skills of farming are passed from one generation to another under family ownership structures. When farm children do not return to farming because of their desire for more financially secure careers, a generation of farming knowledge, skills, and experience is lost.

[17] 1995 Farm Costs and Returns Survey. USDA Economic Research Service.

- **Personal connection to food:** With less than 2 percent of the Nation's population engaged in farming, most consumers have little connection to agriculture and food production. As a consequence, they have little connection with nature, except as a place for recreation, and lack an appreciation for farming as cultivation of the earth for the production of food that sustains us. Through farmers markets, Community Supported Agriculture, and direct marketing strategies of small farmers, people are beginning to connect with the people growing their food. Consumers are developing meaningful, direct relationships with farmers and a connection with food as a product of a farmer's cooperation with nature.

- **Economic foundations:** In some States and regions of the country, dispersed farm operations are key to economic vitality. Historically, decline in U.S. farm numbers were more than offset by increases in productivity and output. However, this does not appear to be the case in places like Wisconsin, a State whose farm economy has been characterized by a large number of moderate-sized family-operated dairy farms. Since 1988, total volume of milk produced in the State has dropped and the real value of gross sales has also decreased. The loss of dairy farms in this case has meant a loss to the State's economic output.

Our elders say that money is just money for it is the land and water that will house, feed, and nourish the Hopi people in the distant future. It is the land that will remain to remind the children about traditions, beliefs, customs and life ways. It is this land that we will call home.

— Michael Elmer, Hopi Tribe

Why are small farms at risk?

As with most major industries, ownership and control over agricultural assets are increasingly concentrated in fewer and fewer hands. Concentration translates into the loss of open and competitive markets at the local level. Farmers operate in a market made of many sellers and few buyers. Farmers have little to no control over setting the price for their products. The basic tenets of a "competitive" market are less and less evident in crop and livestock markets today.

The recent passage of the 1996 FAIR Act is a watershed event in the history of Federal farm policy. It signals the reduction and eventual elimination of government intervention in commodity markets as a means to provide income and price stability for the farming sector.

Finally and most importantly, technology and market changes have shifted economic opportunities off of farms and into the agricultural input and post-harvest sectors. As research was focused on developing technologies that use ever greater levels of capital to enable fewer people to produce the Nation's food, income and opportunities shifted from farms to the companies that produce and sell inputs to farmers. As farmers focused on producing undifferentiated raw commodities, food system profit and opportunities were shifted to the companies that process, package, and market food. Consequently, from 1910 to 1990 the share of the agricultural economy received by farmers dropped from 21 percent to 5 percent.[18]

[18] Smith, Stewart, "Farming: It's Declining in the U.S.," Choices, First Quarter 1992.

The combination of increased concentration among food processing companies, loss of competitive markets, and reduction of price stabilizing tools of government will place farmers in increasingly vulnerable situations. Farmers will find themselves with less and less control over their economic security.

A Time to Act

It is with full recognition of this increased economic vulnerability that the National Commission on Small Farms conducted its work. The Civil Rights Action Team report established the rationale for the Commission by recommendation No. 36. In addition to racial discrimination, government policies and practices have discriminated against small farm operators and poor farmers. In some cases, such as commodity program policies, this discrimination was explicit. In other cases, the bias was less intentional and reflected simple ignorance of the specific needs of small farms. This problem was affirmed by the many hours and pages of testimony received by the Commission.

This report addresses both forms of bias. It recommends changes in policies, programs, and administrative management practices that explicitly disadvantage smaller farms. It also recommends changes that will give due recognition to the benefit of small farms to society.

In 1980, Secretary Bergland proposed a “Time to Choose” the future direction for our Nation’s agriculture. The National Commission on Small Farms has outlined in the contents of this report, an opportunity for Congress and the USDA to act on these recommendations to improve the well-being of our Nation’s small farms and support the contributions they make to our American society.

On more than one occasion, farmers who spoke at the public meetings referred to the Commission as “our last hope.” A choice was made nearly 20 years ago to diminish the role and relevance of small farms in this country. It is with conviction and hope that the National Commission on Small Farms is asking Congress and the USDA to *act on the needs of America’s small farmers.*

IV. The USDA National Commission on Small Farms

In February 1997, USDA released a report by the internal USDA Civil Rights Action Team (CRAT). The CRAT report included 92 recommendations on changes in management, program delivery, and employment practices to address the long-term bias and discrimination against minority farmers and minority employees at USDA. The CRAT also identified discrimination against small farmers and recommended to Secretary Glickman that he "appoint a diverse commission to develop a national policy on small farms."[19]

In July 1997, Secretary Glickman appointed a 30-member Commission of volunteers from across the country. The Commission consisted of people who are farmers and ranchers, staff of nonprofit farm and farmworker advocacy organizations, Extension professionals, current and former public officials, and philanthropic foundation program staff.

The Commission began its work in Memphis, Tennessee, on July 28 by receiving testimony from farmers and small farm advocates. Subsequent public hearings and meetings were held in Sioux Falls, South Dakota, on August 21 and 22; Washington, DC, on September 10 and 11; and Sacramento, California, on September 15 and 16. Three smaller meetings were held in Albany, New York; Albuquerque, New Mexico; and Portland, Oregon. Additional meetings were conducted by individual Commission members in various locations, including Fresno, California; Lihue, the Island of Kauai, Hawaii; and South Carolina. The meetings were attended by approximately 800 people. In total, the Commission heard oral testimony from 200 people and received written testimony by mail and facsimile from 165 people.

The Commission divided into 5 topical committees: Conservation, Credit, Research and Extension, Marketing, and Definition. Each committee developed recommendations relating to the specific functions of USDA before integrating the recommendations under 8 policy goals. While the Commission could not possibly respond to each individual issue raised in testimony, they deliberated on many issues and identified those most critical to the well-being of small farms.

The time constraint placed upon the Commission did not allow for the conduct of any original research or analysis of the effects of USDA's current programs, practices, and policies on the Nation's small farms. There was not time to conduct in-depth reviews of USDA programs, rules, and regulations. Instead, the Commission evaluated the problems and solutions suggested by the testimony received and relied on their own experience, knowledge, and creativity to craft this set of recommendations for consideration by Secretary Glickman. The Commission feels a strong need for continued dialogue about the status of small farms in this country and USDA's responsiveness to their needs. Therefore, the Commission submits its first recommendation as follows:

[19] Recommendation No. 36. Civil Rights at the United States Department of Agriculture. A Report of the Civil Rights Action Team. February 1997. p. 71.

Recommendation

Secretary Glickman should prepare a progress report and reconvene the Commission within 9 months of receipt of this report to assess progress in bringing about changes consistent with the recommendations, and to provide input on emerging concerns within the Commission's domain. Upon immediate transmission of this report to Secretary Glickman, Commission members should meet with key Subcabinet members, Agency Administrators, and program staff to review the recommendations in dialogue with USDA officials. If at all possible, the Commission should remain activated through its chartered ending date of 1999. A public and written progress report should be presented at the National Conference on Small Farms scheduled for 1999.

The Commission also recognizes that State and local government policies, programs, and regulations affect the viability of small farms throughout the country. Issues such as property taxes and State assistance programs administered by the State departments of agriculture, land-grant universities and other publicly funded colleges and schools, all impact agriculture and the probabilities of success for small farms in each State. The Commission encourages the Nation's governors, legislatures, State departments of agriculture, and land-grant universities and colleges to examine how their institutions might better serve the needs of small, beginning, women, and minority farmers in their States. This might be accomplished by an appointed commission of diverse stakeholders, community-based organizations, farmers, and public officials, modeled after the USDA National Commission on Small Farms.

V. A Vision for Small Farms in the 21st Century

Small farms have been the foundation of our Nation, rooted in the ideals of Thomas Jefferson and recognized as such in core agricultural policies. It is with this recognition of our Nation's historical commitment to small farms that we renew our dedication to the prominence of small farms in the renewal of American communities in the 21st century. Black, Hispanic, Native American, Asian, women, and other minorities have contributed immensely to our Nation's food production and their contributions should be recognized and rewarded.

It is our resolve that small farms will be stronger and will thrive, using farming systems that emphasize the management, skill, and ingenuity of the individual farmer. We envision a competitive advantage for small farms realized through a framework of supportive, yet responsible, government and private initiatives, the application of appropriate research and extension, and the stimulation of new marketing opportunities. As small farmers and farmworkers succeed in this nurturing environment, not only will they continue their valuable contribution to the Nation's food supply, but they will also fuel local economies and energize rural communities all across America. In the process of flourishing, small farms will contribute to the strengthening of society, providing communities and the Nation with opportunities for self-employment and ownership of land, and providing a cultural and traditional way of life as well as nurturing places to raise families.

We emphasize public policies that recognize the value of small farms and actively encourage their growth and continuation. These policies are essential to the realization of this vision; so too are policies that recognize and reward the contributions of farmworkers and their families. Toward this end, the Commission has articulated goals and made specific recommendations to guide the decision-making of the Secretary of Agriculture, the Executive Branch, and Congress into the next century.

VI. Guiding Principles for Federal Farm Policy

We recommend that farm policy decisions adhere to the following guiding principles for affecting the structure of the U.S. agricultural system:

Safe and healthy food – Farm policy should encourage farming systems that produce safe, healthy, and diverse food.

Relationships between farmers and consumers – Farm and food policy should create greater opportunities to connect farmers with consumers directly to enable farmers to respond to changes in consumer demand and stimulate increased interest in agriculture among consumers.

Community – Farm policy should support an agriculture that sustains and strengthens rural communities and celebrates cultural diversity and a traditional way of life.

Stewardship of natural resources – Farm policy should give incentives to reward responsible stewardship and care of the land, water, and air.

Safe, responsible conditions for farmers and their workers – Farm policy should enable farmers and their workers to work in safe and responsible working environments.

Fair and open markets – Public policy should result in vigorous competition in open markets that are fair to producers of all sizes and devoid of price discrimination. It should strive to create a diversity of markets for a diversity of unique products, producers, and consumers.

Provide opportunity for many – U.S. agricultural policy should open opportunity for more American people to own and operate farms as a livelihood. It should enable people who want to farm to gain access to land and other productive assets whether by lease or purchase. A person's options and abilities to participate in farm ownership or operation should not be compromised or abrogated on account of their ethnicity, gender, or other non-merit related, demographic characteristics.

Farm income – Farm policy should enhance opportunities for people to generate farm incomes comparable to other economic sectors. That must involve efforts to reverse the long-term trend toward a declining share of food system income accruing to farmers and ranchers, in relation to the input and post-harvest sectors.

VII. Description of a Small Farm

In developing its recommendations, the Commission describes small farms as farms with less than $250,000 gross receipts annually on which day-to-day labor and management are provided by the farmer and/or the farm family that owns the production or owns, or leases, the productive assets.

This description is not intended for use as an eligibility guideline. It is intended only to generally describe the farms that we believe should be given priority consideration by USDA, with special emphasis on those with the greatest need to improve their net farm incomes.

We recognize that small farms vary by region and commodity. While $250,000 in gross receipts may not sound small, and in fact may be high for some commodities, in other areas, it is barely sufficient to provide a net farm income comparable to the income of the average non-farmer and farms up to that size are among those whose survival is most endangered. For example, the average farm with annual gross sales between $50,000 and $250,000 has a net cash income of only $23,159. Over 80 percent of a farmer's gross sales are absorbed by farming expenses. (See Figure 2 and Box below.)[20]

This description of small farms includes approximately 94 percent of all U.S. farms. These farms own 75 percent of the total productive assets in agriculture, mostly land, and receive 41 percent of all agricultural receipts. This description includes 41 percent of all farmers who consider farming their primary occupation and an equal percentage of farmers work part-time on the farm and rely on non-farm jobs as their primary source of income. Most of the farm units usually referred to as "family farms."

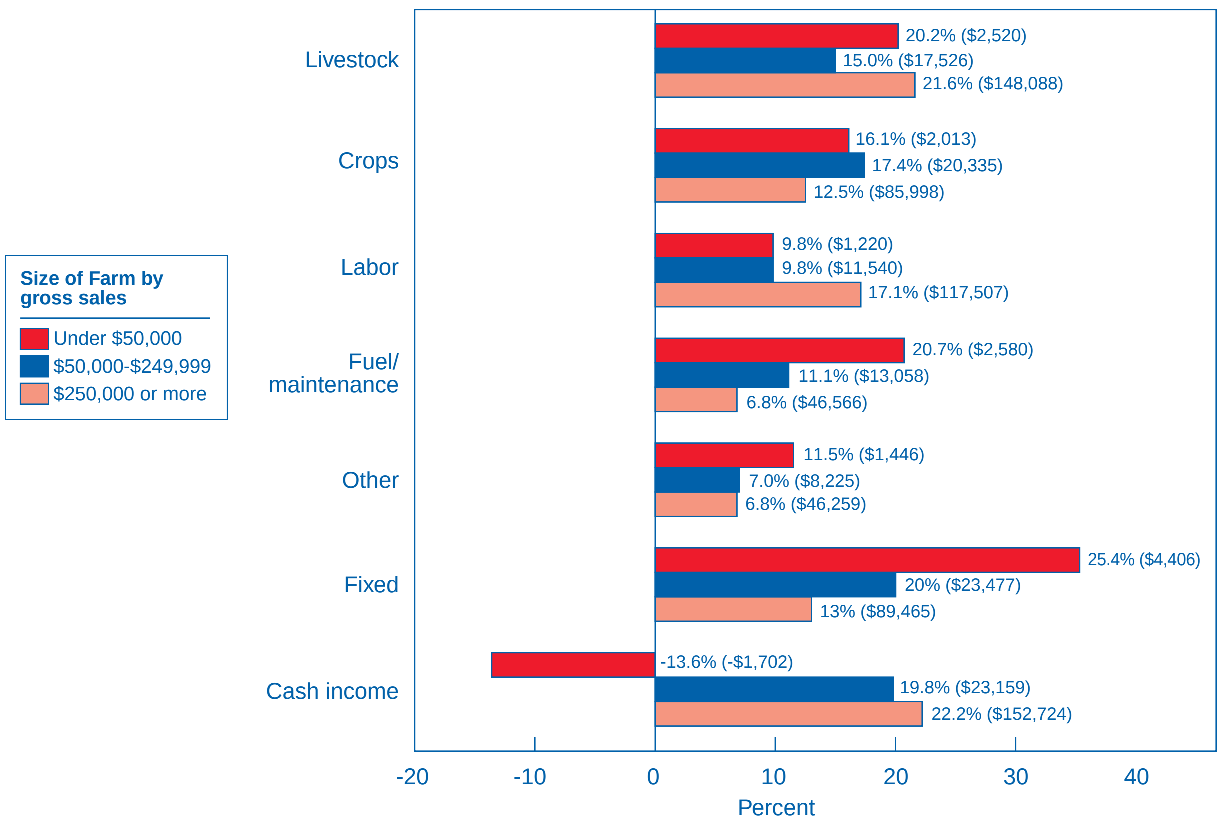
Looking at farms with gross sales between $100,000 and $250,000, there is great variety in gross sales based on the value of the commodities grown and the mix of commodities, fixed and variable expenses, and ultimately, in net farm income. For example, a typical wheat farm in 1993 received gross cash income of $153,219 but after cash and fixed expenses, depreciation and labor were paid for, the net farm income was $28,575. Cattle producers in 1993 did not fare as well. A typical beef operation received gross cash income of $150,092. But after cash and fixed expenses, depreciation and labor were paid for, the net farm income for a typical beef operation was $13,509.

Prepared by the Economic Research Service from the 1991-1994 Farm Costs and Returns Survey.

[20] Prepared by the Economic Research Service from the 1991-1994 Farm Costs and Returns Survey.

Figure 2

Cash Expenses and Income as a Percent of Gross Cash Income, By Size of Farm, 1995



Source: 1995 Farm Costs and Returns Survey

Note: Dollar amounts are a national average.